Although milk has come to form a fundamental part of the Colombian diet, and milk production an important part of the agricultural economy, such was not always the case. In this chapter, I relate the story of how one humble and economically unstable cooperative managed to transform itself into a significant economic force and change the national milk market. The COLANTA cooperative, using a simple but well-executed economic strategy, provides a model for cooperative-led agribusiness development. Its history—and particularly the difficulties it has experienced because of Colombian agrarian policies—also shows the importance of developing a favorable policy context that supports rural producers and cooperatives. I draw on COLANTA archives, interviews with COLANTA members and neighboring nonmembers, and my experience working with other solidarity economy organizations to identify how this cooperative built a national market and addressed the challenges of trade liberalization.

INTRODUCTION

In 1962, a group of 64 small farmers in the Don Matías municipality (department of Antioquia) united to create the Colechera cooperative, with support from the departmental Secretariat of Agriculture. Their objective was to reverse
their historical disadvantages in the dairy market, gain collective power by establishing economies of scale, and build the capacity to negotiate collectively rather than as individual producers. At that time, as indicated in the COLANTA historical archives, small milk producers in northern Antioquia faced numerous difficulties. Gold mining had stripped the land of its vegetation and fertility, and agriculture barely covered the subsistence needs of the families who depended on milk sales. Access to the fresh milk market in Medellín, the departmental capital, was nearly impossible since the mayor’s office had prohibited sales of unpasteurized milk, and a local oligopoly controlled 95 percent of the dairy market. For consumers, milk was sold only every other day, and each family faced a maximum limit of two liters. Moreover, purchasing milk required long waits at neighborhood stores (COLANTA 2012b).

The Colechera cooperative became an object of ridicule in the department, derided for its seemingly utopian ideals and the fact that it declared legal bankruptcy three times in its first ten years. After the third bankruptcy, the government ordered the liquidation of the cooperative’s debts, and many assumed that the story of Colechera was over. However, one year later the cooperative began a new cycle under the name COLANTA. Four decades later, COLANTA has taken its place as one of the most important dairy cooperatives in the country, contributing significantly to the favorable inclusion of smallholders in the national economy.

COOPERATIVES AND THE DAIRY SECTOR IN COLOMBIA

To assess COLANTA’s impact on its members, it is important to understand the smallholder dairy sector in Colombia, which comprises individual producers with few resources and little political or economic influence. Land tenure patterns in the livestock sector are made up of smallholdings (minifundios), and families are heavily reliant on the milk they produce. According to the Colombian Livestock Federation, 82 percent of livestock production units (approximately 253,930 producers) have fewer than 50 animals (Lafaurie Rivera 2005). Dairy herds are even smaller and more fragmented, with an average of fewer than 10 animals. It is common to find families that milk 3 cows daily to obtain 12 liters of milk, and only 13 percent of producers in the country milk 15 cows on a daily basis, producing an average of around 50 liters and a monthly income of
900,000 Colombian pesos* (the equivalent of one and a half times the legal minimum wage in Colombia). These figures clearly illustrate the limited ability of dairy earnings to garner a fair wage for producers. Additionally, these small producers tend to be geographically dispersed in areas lacking sound public infrastructure. This leaves them with limited self-organization and little access to processing plants and markets, and thus economically vulnerable.

The dairy commodity chain is highly concentrated and does not favor small producers. Currently, there are approximately 140 processing plants in the country that supply fresh milk and dairy products to domestic consumers and international markets. Of the 499 milk collection and storage facilities in the country, 18 percent control more than 95 percent of total volume, and just 10 of these facilities account for 65 percent of milk storage (Castillo et al. 2005). This dairy processing structure leaves smallholders with minimal negotiating capacity vis-à-vis processors that deal with daily volumes in excess of 100,000 liters. In this context, a few cooperatives have played a key role in generating economies of scale, gaining power within the value chain, and stabilizing the household economies of small and medium-size milk producers. COLANTA has been particularly successful in this role.

While COLANTA members are similar to other Colombian dairy producers in the sense that the great majority (70 percent) are smallholders who have adapted their activities to the demands of the market, they receive a series of benefits that provide them significant and relatively unique improvements in their quality of life. The cooperative, with the overwhelming support of the membership, plays a significant role in ensuring quality standards from even the smallest and most geographically distant producers, guaranteeing that those small producers can engage in a profitable economic activity without having to abandon the countryside to migrate to the city. The support that a cooperative like COLANTA gives to the dairy sector is also critical at the macro level since the dairy sector has become important nationally, accounting for 4 percent of total GDP and 18 percent of food costs (Quintero Ospina et al. 2009).

*At the time of this writing, one U.S. dollar was equivalent to approximately 2,000 Colombian pesos.
COLANTA’S ECONOMIC SUCCESS

Since its rocky start, COLANTA grew to become a leader in the dairy sector, accounting for about 10 percent of Colombian milk production and managing a substantial sales volume at the national and international level (FEDEGAN 2005). The cooperative has a membership of more than 10,000 producers located in almost every region of the country, as well as 4,800 employees, who are also members (COLANTA 2012b). COLANTA boasts a line of more than 130 dairy and meat products and is the top cheese producer in Colombia, producing 36 percent of the national cheese supply and 48 percent of fresh cheeses (COLANTA 2010). In 2008, the cooperative registered $650 million in sales, making it the second-largest food company in the country (IAlimentos 2009). The economic success of the cooperative is such that, in many places, “going to COLANTA” (ir a la COLANTA) is synonymous with “going to the store.” This success was achieved through an economic strategy focused on the following four principles.

ATTENTION TO PRODUCT QUALITY AND PRODUCERS’ NEEDS

A central focus of the COLANTA cooperative has been increasing the quality of milk produced by its members and, consequently, the well-being of members themselves. To guarantee quality, the cooperative promotes the genetic improvement of Holstein breeds and gives free technical assistance to its membership through a technical department made up of veterinary doctors, animal technicians, agronomists, insemination specialists, and agricultural specialists. The cooperative incentivizes quality improvement by giving bonuses based on the protein content of milk, and simultaneously generates trust by guaranteeing the purchase of all of the milk that members produce. Finally, as the cooperative strengthens milk production, it also supports the economic diversification of member households with free business trainings for member families.

VERTICAL INTEGRATION

The vertical integration of the cooperative has allowed it to extend benefits to its members, reduce operational costs, and generate new sources of revenue. For
example, the cooperative established a chain of fifty AGROCOLANTA warehouses, located strategically throughout Colombia to provide low-cost agricultural inputs and contribute to the broader solidarity economy (Salazar-Díaz 2009). Similarly, COLANTA makes and sells its own mineralized salts, fertilizers, and balanced feed rations. Through these programs, the cooperative has turned member needs into commercial opportunities and, at the same time, established itself as a recognized and trusted brand at the national level. At the other end of the value chain, the cooperative has established more than 100 of its own stores in cities across Colombia in order to reach consumers directly, without intermediaries. To extend its reach and establish another source of revenue, the cooperative has recently established franchises not only for product distribution but also for production itself. This strategy of concessions and franchises has served it well: in 2009, it saw a six-fold increase in earnings.

**DIVERSIFICATION THROUGH INDUSTRIALIZATION**

Innovation is the central pillar of COLANTA’s continued business development. From its creation, the cooperative has invested heavily in the diversification of its dairy products and has used industrialization as a way of adding value to members’ products. Currently, it has 38 dairy lines with 196 distinct products, 22 for meat, and 48 products in the line of soft drinks, juices, and bottled water. The cooperative intends to maintain its leadership in the dairy sector by developing innovative products, such as yogurt with Benecol, a bioactive ingredient used to reduce cholesterol (Dinero 2009).

**MARKET EXPANSION**

Making the most of members’ increases in quality and production and of an efficient system for processing and transporting pasteurized milk, COLANTA managed to supply a previously unmet demand in Medellín, Colombia’s third-largest city. Even more important for the cooperative, it established new national and international markets. In the last 40 years, COLANTA has played a fundamental role in the increase in Colombian consumption of milk and the acceptance of new dairy products. Figures provided by the cooperative indicate that Colombian per capita milk consumption grew from 50 liters in 1976 to 143 liters in 2008; the country transitioned from importing to exporting dairy.
In this period, the cooperative also reached a sales volume of 2.5 million liters per day (Colantapoli 2009).

In terms of new market incursion, it has opened doors to Russia, Chile, Mexico, Aruba, Costa Rica, Cuba, Ecuador, Morocco, Bangladesh, and Venezuela, exporting 1,200 tons of milk powder, yogurt, cheese, and cream each year, earning almost $12 million (El Espectador 2010). To access these markets, COLANTA has achieved or advanced toward a variety of strict international certifications, including ISO 1991,† the Russian qualifications for phytosanitary security (El Colombiano 2010), ISO 14001 for environmental management, OSHAS 18001 for occupational health and security, and HACCP for food safety. Similarly, COLANTA has been a pioneer in the certification project for Grade “A” PMO (Pasteurized Milk Ordinance) Milk Farms, which is indispensable for obtaining authorization for export to the United States (COLANTA 2012a).

These four economic strategies strengthen the institution and allow it to fulfill its social role with members and nonmembers. Faithful to its philosophy of guaranteeing total production purchase, COLANTA always has milk surpluses that it uses for donations and programs that distribute milk to schools jointly with the administration of the municipality of Medellín. In the last five years, COLANTA has invested $8 million in support of formal elementary, middle, and high school education; infrastructure such as the building of classrooms and sports complexes; and cooperative and technical training. Moreover, in the various municipalities where the cooperative is present, it has donated more than $4 million to support existing programs and activities, among them literacy programs for members and nonmembers.

Despite the cooperative’s general pattern of growth, the balance sheet has occasionally suffered in the past several years. COLANTA lost $3.5 million in 2002, and it registered losses of $9.1 million in 2005. That same year, the company lost nearly 8 percent of its net worth, dropping from $71.4 billion in 2004 to $65.8 billion in 2005 (El Tiempo 2006). Opponents of the cooperative’s administration argued that these declines were due to the president dedicating excessive time to political activities as a Colombian congressman. With the

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†ISO is the International Organization for Standards, which establishes global standards, including food safety, environmental management, and occupational health and safety.
generalized crisis of 2007–8, a small fall in internal demand, and export restrictions to Venezuela, the cooperative had to assume the additional costs of storing the milk it buys from members (Portal Lechero 2010).

In 2010, the mayor of the municipality of San Pedro de los Milagros and nine municipal council members attempted to rescind COLANTA’s commerce and industry tax exemption, from which the cooperative had benefitted for 23 years—the full time that the cooperative had been present in the municipality. According to the mayor, in just the preceding seven years, the municipal treasury had forfeited nearly 6 million pesos in revenue through these tax exemptions (Echeverry Marín 2010). The council members argued that the billions of pesos that COLANTA was exempt from paying each year could be invested in the community.

Despite COLANTA’s recent economic setbacks, the national dairy policy promoted by the National Council of Social and Economic Policy (Consejo Nacional de Política Económica y Social, or CONPES) has adopted COLANTA’s path to success. In June 2010, CONPES published a document intended to improve the competitiveness of the Colombian dairy sector by lowering production costs, raising productivity, diversifying internal and external markets, and making the most of opportunities and comparative advantages within the sector. Among its objectives are the promotion of agro-industry, associativism, horizontal and vertical integration, processing and sale of products with value added, improvements in quality, and the strengthening of institutional management (CONPES 2010). Put simply, the new recommendations suggest that everyone should follow COLANTA’s model.

**THE CHALLENGE OF UNFAVORABLE POLICIES**

My interviews with cooperative members, ex-members, and people who belong to other cooperatives point to a sharp critique of the Ministry of Agriculture for not having developed a national dairy policy that would involve diverse stakeholders. Several of those interviewed explained that the government has legislated to exercise control, but that in the majority of cases, this has favored the country’s large dairy processors with little consideration for the milk producer. As I explain below, the COLANTA cooperative, an entity with a double identity as both large seller and representative of small producers, has suffered as a result of different local and national policies during its history.
The first policy challenges involved trade liberalization and international competition, often under terms that were disadvantageous to Colombian smallholders. In 1979, the national government authorized the import of 43,000 tons of powdered milk at below-market prices—an enormous increase given that the historic average between 1967 and 2002 was only 7,518 tons per year. This situation reduced the cooperative’s buying capacity and forced it to give away glasses of milk since there was no way of getting powdered milk into the market (COLANTA 2011). The lack of competitiveness of the Colombian dairy sector is linked to low productivity, high production costs, and competition with subsidized international markets (Lafaurie Rivera 2009). The cooperative, with its guarantee of buying all the milk its members produce, protects smallholders from the harmful effects of this type of policy, but in the process, the institution itself assumes the costs and risks that go along with these policies.

A more recent crisis has to do with the import of whey, which went from no imports to an average yearly importation between 1981 and 2002 of 1,184 tons. Starting in 2003, the government allowed increases so that by 2010 imports had grown five-fold, reaching an average of 7,423 tons (Portafolio 2011). Whey powder is used as a sugar substitute in the preparation of baked goods and chocolate. Leaders of the dairy sector believe that these imports are unnecessary because Colombia has enough supply to satisfy the market, yet these policies force them to compete with foreign dairy farms.

A second key policy issue has been national price controls for milk. COLANTA members are always concerned about prices, particularly because the Ministry of Agriculture has repeatedly changed the protocol for paying for a liter of milk. For many years, COLANTA had established bonus payments for quality linked to protein content. In 2007, the Ministry of Agriculture established another way of defining price, according to which the industry was to pay producers a composite base price (which was adjusted every six months) plus voluntary bonuses for volume, refrigeration, and seasonality, and mandatory bonuses for hygienic and sanitary quality. According to COLANTA, this new formula minimized the importance of protein and fat—that is, the useful parts of the milk—an error that was demonstrated with the decrease in average protein content, which fell from 3.2 to 3 percent between 2003 and 2009. Moreover, the new government pricing ignored the facts that the international price of powdered milk varies and that there are periods of rain and drought that affect production, supply, and pricing. Spurred by disagreement among government analysts, the various livestock unions, and the cooperative sector,
the government has passed two other price-control resolutions in recent years, increasing farmer concerns and disrupting COLANTA’s financial incentive system that rewarded quality and technical improvements.

Finally, the implicit acceptance of informal markets also harms COLANTA and its members. According to the Colombian Livestock Federation, the informal milk market enjoys certain advantages in comparison with the formal market. It is estimated that the informal market sells 40 percent of the national fresh milk supply. The informal sale of fresh milk is a business with a high profit margin, characterized by low operation costs and high cost to consumers (close to that of pasteurized milk), and it is has benefited from reductions in farm-gate prices since consumer prices have never gone down (Lafaurie Rivera 2005). In September 2008, the Ministry of Agriculture made the problem of informal markets worse by reestablishing the sale of raw milk.

**CONCLUSION: CHALLENGES FOR A FUTURE OF FREE TRADE**

The forty years of work that COLANTA has invested in its strategies for continual improvement in the areas of productivity, quality, diversification, agro-industry, and sales have changed the Colombian dairy market. These strategies have enabled the cooperative to transform—at least for its members—a sector that was once characterized principally by highly dispersed and marginalized producers and highly concentrated and powerful dairy processors. This new market power, in turn, has allowed the cooperative to make the most of the commercial opportunities brought by trade liberalization and economic globalization. Among other indicators of its success, COLANTA stands out as the largest dairy cooperative in the country, the result of its constant work to consolidate the microeconomies of thousands of small-producer families.

The success of the cooperative is evident despite a number of setbacks related to state policies that have left small dairy farmers walking a tightrope between stability and ruin. Moreover, with its large market share and capacity for management, the cooperative has recently won the ear of decision makers who directly shape the future of the sector. Now the new free trade agreements that Colombia has or will put into place will give COLANTA new opportunities while simultaneously exposing the cooperative to competition with the largest dairy companies in the world.
Many studies predict the negative impact of free trade on Colombian smallholders, and, although dairy producers probably will not feel the most serious impact, they will not be exempt. According to the Colombian Action Network against Free Trade:

It is calculated that, with all the [free trade agreements] that Colombia has adopted, some 15,000 tons of powdered milk will be allowed to enter the country every year, when during 2009, the national dairy industry maintained inventories of approximately 20,000 tons of unpurchased powdered milk. In addition, quotas of whey from Switzerland, Norway, Iceland, the European Union, and the United States in the amount of more than 10,000 tons will enter, while the demand of the Colombian market is at 2,000 tons and entry quotas in the various FTAs were authorized at 5,000 tons. (RECALCA 2010)

Beyond the supply imbalances that these agreements will engender, it cannot be ignored that the European Union and the United States provide significant subsidies to their producers, which makes any type of international competition difficult.

Milk producers and unions strongly opposed these free trade agreements. In response, the national government committed $282 million to protect and strengthen the competitiveness of the dairy sector over the 17 years of transition to free trade with Europe. CONPES argues that this level of investment is insufficient, amounting to only $16 million per year. The Colombian Livestock Federation has projected a minimal level of support at $80 million per year in order to adapt to the coming economic environment (González 2010).

Still, the COLANTA cooperative insists that it is prepared to meet these challenges and that it can successfully enter foreign markets, principally in the United States. Perhaps history supports its confidence. Castillo et al. (2005) emphasized COLANTA’s success in making the most of the MERCOSUR regional market—an achievement due to its historic dedication to quality, production, and diversification. While the free trade agreements present many difficulties at the national level, the primary difficulty for entering new markets will be meeting phytosanitary standards. Since COLANTA already has or is about to receive the certifications required by several importing countries, it is well positioned to expand its participation in international markets. According to Santiesteban Rojas, “The effects of the FTA [with the United States] threaten above all the smallholder or informal agriculture economy.
whose products are destined for internal sales” (2008, 61). Garay Salamanca et al. (2009) also offer some hope. Although the proposed free trade agreement clearly favors the United States over the first 15 years, “in the long term, the terms agreed for [the dairy] product chain may turn out to be favorable for Colombia, given the relative size of the markets, and the possibility that the Colombian dairy industry may compete successfully in the United States” (36). The leaders of COLANTA have demonstrated resilience in facing these challenges in the past, and they are confident that their strong cooperative foundation and commitment will be strong enough to meet the challenges now looming on the horizon. What is certain is that, of all the small dairy producers in the country, COLANTA’s members have the best possibility of surviving and riding this new wave of change.